Financial Statements of

PCF INVESTMENTS LTD.

Year ended December 31, 2004

105-04326/

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of PCF Investments Ltd. as at December 31, 2004 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada

January 17, 2005

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

PCF Investments Ltd.
Statement of Financial Position
As at December 31

	2004	2003
Assets		
Cash	$ 1,097,006	$ 1,386,516
Accounts receivable and accrued income	77,821	77,414
Investments *(Note 3)*	6,800,931	9,894,459
	$ 7,975,758	**$ 11,358,389**
Liabilities and Shareholder's Deficiency		
Liabilities:		
Accounts payable and accrued liabilites	33,359	28,364
Due to Investment Saskatchewan Inc. *(Note 4)*	9,716,937	12,744,937
	9,750,296	12,773,301
Shareholder's Deficiency:		
Share capital *(Note 5)*	100	100
Deficit	(1,774,638)	(1,415,012)
	(1,774,538)	(1,414,912)
	$ 7,975,758	**$ 11,358,389**

Commitments *(Note 6)*

See accompanying notes to the financial statements

On behalf of the Board:

Director

Director

PCF Investments Ltd.

Statement of Operations and Deficit

For the year ended December 31, 2004 with comparative figures for the period from September 1, 2003 to December 31, 2003

	2004	2003
Revenues		
Administrative fees	$ 4,501	$ 2,797
Dividends	31,288	10,429
Interest	225,371	119,948
Recoveries in excess of carrying value of investments	150,163	28,914
Royalties	5,816	4,351
	417,139	**166,439**
Expenses		
Management fees *(Note 7)*	307,168	100,487
Professional fees	42,624	29,444
	349,792	**129,931**
Income before the following	**67,347**	**36,508**
Net reduction in carrying value of investments *(Note 3)*	(426,973)	(1,451,520)
Net loss for the period	**(359,626)**	**(1,415,012)**
Deficit, beginning of period	(1,415,012)	-
Deficit, end of period	**$ (1,774,638)**	**$ (1,415,012)**

See accompanying notes to the financial statements

PCF Investments Ltd.

Statement of Cash Flows

For the year ended December 31, 2004 with comparative figures for the period from September 1, 2003 to December 31, 2003

	2004	2003
Operating activities		
Net loss for the period	$ (359,626)	$ (1,415,012)
Add non-cash items:		
Net reduction in carrying value of investments *(Note 3)*	426,973	1,451,520
	67,347	36,508
Net change in non-cash working capital balances related to operations *(Note 8)*	4,588	(49,050)
Cash provided by (used in) operating activities	**71,935**	**(12,542)**
Investing activities		
Acquisition of investments	(335,570)	(141,928)
Repayments from investments	3,002,125	540,986
Cash provided by (used in) investing activities	**2,666,555**	**399,058**
Financing activities		
(Decrease) increase in due to Investment Saskatchewan Inc.	(3,028,000)	999,900
Issuance of share capital	-	100
Cash (used in) provided by financing activities	**(3,028,000)**	**1,000,000**
Net (decrease) increase in cash during the period	**(289,510)**	**1,386,516**
Cash, beginning of period	1,386,516	-
Cash, end of period	**$ 1,097,006**	**$ 1,386,516**

See accompanying notes to the financial statements

PCF Investments Ltd.
Notes to the Financial Statements
For the year ended December 31, 2004 with comparative figures for the period from September 1, 2003 to December 31, 2003

1. Status of the corporation

PCF Investments Ltd. ("PCF") was incorporated under The Business Corporations Act (Saskatchewan) on August 14, 2003 as a wholly-owned subsidiary of Investment Saskatchewan Inc. Investment Saskatchewan Inc. is a wholly-owned subsidiary of Crown Investments Corporation of Saskatchewan, a provincial Crown corporation. PCF is not subject to federal or provincial income taxes by virtue of this ownership.

PCF was established to hold cash and certain investments previously owned by Investment Saskatchewan Inc. PCF commenced commercial operations on September 1, 2003 with the transfer of investments from Investment Saskatchewan Inc. to PCF.

2. Significant accounting policies

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The following are considered significant:

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of investments. Actual results may vary from the current estimates. These estimates are reviewed quarterly and, as adjustments become necessary, they are reported in the Statement of Operations and Deficit in the period in which they become known.

Revenue recognition

Income from non-impaired debt investments is accrued. Dividends are recorded as income when receivable.

Investments

Investments include debt investments in private companies, and share investments in private and public companies.

Debt ("loans") and share ("shares") investments that are evaluated as possibly being subject to a loss in value are assessed quarterly based on appropriate criteria, including past operating results of the investee, financial outlook of the investee, fair value of the underlying security, the overall credit quality of the borrower, recent capital transactions and their associated value between the investee and arm's length parties, and liquidity or going concern problems of the investee.

Loans are valued at their principal amount with accrued interest earned included in accounts receivable and accrued income. A loan is considered impaired if, as a result of deterioration in credit quality, there is no longer reasonable assurance of the timely collection of the full amount of outstanding principal and interest. A loan on which payments are in arrears for 90 days or more is usually classified as income impaired. Recognition of interest income ceases on income impaired loans until interest is received. On principal impaired loans a specific reduction in carrying value is established to reduce their carrying value to the estimated fair value of the underlying security. If the credit quality of the loan subsequently improves, the specific reduction in carrying value is reduced or reversed. Recognition of interest income ceases on principal impaired loans with all cash received applied first to principal, until fully recovered, and then as a recovery in excess of carrying value of investment.

Shares are carried at the lower of cost and, where a loss in the value of a specific share that is other than temporary has occurred, net realizable value. When a decline in the value of a share investment is no longer considered temporary, the investment is written down and carried at the written down value until disposal of the share investment.

3. Investments

At December 31 investments is comprised of the following:

	2004	2003
Debt investments	$ 3,062,473	$ 6,037,752
Share investments	3,738,458	3,856,707
	$ 6,800,931	**$ 9,894,459**

During the period, investments changed as follows:

	2004	2003
Balance - beginning of period	$ 9,894,459	$ -
Net book value of investments transferred	-	11,745,037
Acquisition of investments	335,570	141,928
Repayments from investments	(3,002,125)	(540,986)
Net reduction in carrying value of investments	(426,973)	(1,451,520)
	$ 6,800,931	**$ 9,894,459**

Included in debt investments is $8,073,742 (2003 -$7,522,827) of impaired investments upon which income is not accrued. The total impairment allowance recorded against these investments is $6,141,820 (2003 - $6,054,290), resulting in a carrying value of $1,931,922 (2003 - $1,468,537) for impaired debt investments.

Included in net reduction in carrying value of investments is an impairment allowance of $308,724 (2003 - $1,054,571) related to debt investments and $118,249 (2003 - $396,949) related to a decline in the value of share investments that is considered to be other than temporary.

Debt investments bear interest at rates ranging from 5% to 15% and have maturity dates ranging from 2005 to 2009. Share investments include a preferred share investment with a carrying value and face value of $521,470 and a dividend rate of 6%. Total non-impaired debt investments maturing within one year are $727,267 (2003 - $1,613,838).

4. Due to Investment Saskatchewan Inc.

The amounts due to Investment Saskatchewan Inc. are non-interest bearing and have no fixed repayment terms. During the year PCF Investments Ltd. repaid $3,028,000 (2003 - $nil) of the amount due to Investment Saskatchewan Inc.

5. Share capital

Authorized:

Unlimited Class A voting shares;
Unlimited Class B voting shares;
Unlimited Class C non-voting shares;
Unlimited Class D non-voting shares;
Unlimited Class E non-voting, redeemable, retractable shares; and
Unlimited Class F non-voting, redeemable, retractable shares.

Issued:

100 Class A shares.

6. Commitments

PCF may advance additional funds to investees if it determines that such advances would protect its existing carrying value.

In addition, management fees, pursuant to Note 7, are payable monthly to PFM Capital Inc. ("PFMI").

7. Management fees

Under an Investment Advisory Services Agreement ("Agreement"), PCF has retained PFMI as its exclusive manager to provide investment advisory services in respect of the assets of PCF. PFMI is paid a monthly base management fee of $22,917 plus applicable taxes.

In certain circumstances, PFMI is also entitled to a profit share based upon all cash proceeds in excess of the net book value of an investment from the inception of the Agreement, not including interest, dividend or other income arising from an investment. In the case of shares against which no provision exists, PFMI is entitled to a profit share based upon all cash proceeds in excess of the net book value from the inception of the Agreement, without the foregoing exclusions. Annually, PCF will pay to PFMI a portion of the profit share arising from the divestiture, repayment, or liquidation of specific investments completed in the year. The remaining profit share will be held by PCF and paid to PFMI upon completion of the term of the Agreement. During the year $938 (2003 - $nil) of profit share was paid to PFMI on the repayment of an investment.

The Agreement expires on the earlier of the date upon which all investments of PCF have been divested of, repaid or otherwise liquidated or written off, and September 1, 2006, with a provision for PCF to extend the Agreement for an additional two year term.

8. Net change in non-cash working capital balances related to operations

	2004	2003
Accounts receivable and accrued income	$ (407)	$ (77,414)
Accounts payable and accrued liabilities	4,995	28,364
	$ 4,588	**$ (49,050)**

9. Financial instruments

PCF holds investments predominately in new and expanding Saskatchewan businesses. This investment activity entails exposure to market risk, credit risk, interest rate risk and liquidity risk. These risk factors may impact upon PCF's ability to repay its amounts due to Investment Saskatchewan Inc.

Market Risk

Market risk is the risk that the fair value of an investment may be affected by the ability of an investee company to profitably distribute its products. Some of the companies in which PCF invests are dependent upon a single product or industry. PCF manages this risk through careful due diligence prior to committing funds to the investment and by diversifying its investments across various industry sectors.

Credit Risk

Credit risk is the risk that an investee will fail to perform its obligations. Concentration of credit exposure may arise given that PCF holds the majority of its investments in businesses operating in Saskatchewan and therefore predominately all investments are subject to a similar general economic environment. The ability of investees to meet contractual obligations may be affected by changing economic, political or other conditions. PCF conducts thorough due diligence prior to committing funds to an investment and actively monitors the financial health of its investees on an on-going basis. In addition, some investees operate in and export to other provinces or international markets thereby mitigating this risk.

Interest Rate Risk

Interest rate risk is the risk that PCF's earnings will be affected by fluctuations in interest rates. PCF manages this risk by, on the majority of its debt investments, contractually incorporating interest rates that are based upon the current prime rate and/or are subject to a minimum interest rate.

Liquidity Risk

Liquidity risk is the risk that difficulty will be encountered in liquidating its investments within a reasonable period. Due to the nature of some of PCF's investments, the timing of cash flows from its investments is not predictable.

Fair Value

There is no active secondary market for many of the entities in which PCF invests, and the uncertainty and potentially broad range of outcomes pertaining to the future cash flows from these investments renders the calculation of a fair value with appropriate reliability impractical. The factors that affect the fair value are described above.

The Due to Investment Saskatchewan Inc. is a non-interest bearing liability without a specified maturity date. As there is no planned settlement date, PCF is unable to determine the fair value of this financial instrument with sufficient reliability.

The fair value of PCF's cash, accounts receivable and accrued income and accounts payable and accrued liabilities approximates their carrying value due to the short-term nature of the items.

10. Related party transactions

All transactions with related parties are disclosed separately in these financial statements and notes thereto.

Investment Saskatchewan Inc. provides services to PCF without charge.

11. Subsequent event

Following the close of business on December 31, 2004, PCF Investments Ltd. was amalgamated with Investment Saskatchewan Inc.